Press Release
Madras Fertilizers Limited
May 10, 2022
Rating Assigned,Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BB+ | Positive | Assigned	-
Bank Loan Ratings	130.00	-	ACUITE A4+ | Assigned
Bank Loan Ratings	203.30	ACUITE BB+ | Positive | Upgraded | Stable to Positive	-
Bank Loan Ratings	310.00	-	ACUITE A4+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	743.30	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded its long term rating to '**ACUITE BB+' (read as ACUITE double 'B plus')** from **ACUITE BB (read as ACUITE double 'B)** and reaffirmed its short term rating of **'ACUITE A4+' (read as ACUITE A four 'Plus')** on the Rs.513.30 Cr and assigned the long term rating of 'ACUITE BB+' (read as ACUITE double 'B plus') and short term rating of **'ACUITE A4+' (read as ACUITE A four 'Plus')** on the Rs.230.00 Cr bank facilities of Madras Fertilizers Limited (MFL). The outlook is **'Positive'** (Outlook revised from 'Stable').

The rating upgrade and the positive outlook factors in the gradual strengthening of its business profile with an improvement in the scale of operations and profitability. The operating performance of the company has improved significantly over the last two years and such an improving trend is expected to sustain over the medium term. MFL's performance improved during 9MFY22 with the operating income growing by 42% at Rs. 1530.77 Cr in 9M FY2022 against Rs. 1076.35 Cr in 9MFY2021. The revenue growth has been driven by healthy product demand and healthy operating leverage given better capacity utilisation. MFL has also demonstrated a turnaround in its profitability and recorded operating profit (EBITDA) margin and net profit margin of 8.96 per cent and 0.19 per cent respectively, in FY2021 as against (0.01) percent and (9.68) per cent, respectively, in FY2020. EBITDA is likely to improve further and remain in the band of 9-11 % in FY2022. Further, the rating factors in the established position of MFL as the one of the largest manufacturers of Urea in South India, stable domestic demand outlook for fertilisers, and high import dependence for urea in the country . MFL's majority ownership by the Government of India, the strategic importance of the fertilizer sector to the Indian economy and upgradation in the manufacturing process from Naphtha based feedstock to R-LNG (gas based) that made the manufacturing process more energy efficient are other positive factors in the rating.

The rating, however, continues to be constrained by MFL's presence in the regulated fertilizer industry, high volatility in prices of raw materials and the vulnerability of the fertilizer sector to the vagaries of the monsoon, a key driver of agricultural activity. The fertilizer sector is also highly dependent on the timely receipt of subsidies from GoI as any significant delays lead to increase in the working capital borrowings. MFL's financial position remains impacted by the delay in the approval of the restructuring proposal pertaining to the outstanding loans due to the Government of India. The servicing of these loans have been kept in abeyance pending the proposed restructuring which involves part or full waiver of interest apart from the extension of the tenure for principal repayment. While the timelines for the restructuring remains uncertain, it will improve the capital structure and the financial position of MFL significantly, once completed. Acuité has noted that the company has been able to service its bank facilities in a timely manner despite chronic liquidity challenges. In the opinion of Acuité, the existing GoI loan has elements of subordination given the track record of support from the government through subsidy payments and the facilitation of the feedstock conversion from naphtha to gas, that was critical for the viability of the operations.

About the Company

Madras Fertilizers Limited (MFL) incorporated in the year 1966 is a PSU under the administrative control of the Department of Fertilizers (DOF), Ministry of Chemicals & Fertilizers, Government of India. MFL is engaged in the manufacture of Ammonia, Urea and Complex Fertilizers at Manali, Chennai. MFL is also engaged in manufacturing Bio-fertilizers and marketing of eco-friendly Organic fertilizers and Neem Pesticides under the brand name "VIJAY". The company is an ISO-9001:2008 and ISO-14001:2004 certified company. MFL has its plant facilities and headquarters located on 329 acres of freehold land at Manali, about 20 km north of Chennai city. Mr.U SARAVANAN Chairman & Managing Director of the company. MFL is managed by Mr.U Saravanan Chairman & Managing Director and other directors Mr.Harsh Malhotra, Mr. Mohammad Bagher Dakhili, Mr. Babak Bagherpour, Mr. Samieh Kokabi.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MFL to arrive at this rating.

Key Rating Drivers

Strengths

Established Operations and Strong Market Presence in fertiliser sector and strategically important unit for GoI

MFL has establish presence of over 5 decades in manufacturing of Ammonia, Urea, Complex Fertilizers and Bio-fertilizers since 1966. The company has established its own brand 'VIJAY' providing various fertilizers to the farmers in South India at subsidized rate as prescribed by GoI. MFL operates one of the vintage urea units in the country and is promoted as an IndoIranian Joint Venture (with Naftiran, NIOC, being the shareholder). Further, company is backed by the supported of Government of India (GoI) which owns 59.50 percent stake and partly by National Iranian Oil Company (NIOC), a 100 per cent subsidiary of Government of Iran which owns 25.77 percent stake in MFL. Throughout its operating history, GoI has ensured the timely support in form of financial and technical assistance through subsidies, loans and regulatory reforms. The company has been receiving subsidy from GoI on regular basis marked by Rs.1, 147.25 Cr in FY2021 as against Rs.940.84 Cr in the previous year. The improvement is subsidy is due to increase in sales volume of Urea in FY2021 against FY2020. Acuité believes that the company will continue to benefit through the strong parentage, its market position in South India in fertilizers and establish presence in industry of over five decades. MFL has also received continued support from GoI in the past and acuité expects GoI to provide support to MFL going forward as well as and when needed.

Significant market-share and location advantage

The company is one of the largest manufacturers of Urea in South India with reputed brand image among the customers, an established dealer network and a leading market share in Tamil Nadu of 25.32 percent in terms of Neem coated Urea. MFL also has logistical advantages being present in the vicinity of Chennai Petrochemical Corporation Limited's

(CPCL) refinery, from where naphtha was sourced. The company is in the vicinity of Ennore port which has been developed by Indian Oil Corporation (IOC) from where R-LNG is being imported to support the feedstock conversion from naphtha to gas.

Expected st rong Revenue Improvement in FY22 and improvement in financial performance
MFL's financial risk profile is above average, marked by a negative networth and gearing along with improving debt protection metrics. MFLF's operating profitability margins marked by EBITDA margin improved to 8.96% during FY2021 from 0.01% during FY2020 on the back of favourable raw material prices and decrease in power cost and other overheads and increase in subsidy received from the government. Its EBITDA margin continued to remain at 9 % in 9MFY2022. The improvement in profitability levels has led to marginal improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.32 times and 0.11 times, respectively in FY2021 as against 0.10 and 0.01 times, respectively in the previous year. The DSCR is below unity on account of classification of GoI's loan outstanding principal amount and accrued interest amount into current portion of long term debt. The net worth of the company stood at Rs. (695.23) Cr as on 31 March, 2021 as against Rs. (729.64) Cr as on 31 March, 2020. The improvement is on account of accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands at (1.98) times as on 31 March, 2021 as against (2.47) times as on 31 March, 2020, the improvement is on the significant decrease in short term debt due to the moderate working capital intensive nature of the company. TOL/TNW (Total outside liabilities/Total net worth) stands negative at (2.74) times as on 31 March, 2021 against (2.94) times in previous year. High TOL/TNW is on account of presence of high leverage position of the company and presence of deposit from dealers of amount Rs.89.49 Cr. The total debt of Rs.1, 377.98 Cr as on 31 March, 2021 consist of long-term debt of Rs.25.85 Cr, Unsecured loans of Rs.1.06 Cr, short term debt of Rs.97.51 Cr and maturing portion of long term borrowings of Rs.1, 253.56 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.02 times in FY2021 as against (0.05) times in FY2020. Acuité expects the financial risk profile is remain stable over the medium to long term on account of established operations of the company and regular support from GoI. However restructuring of GoI outstanding loan which may include full/partial interest waiver will remain a key monitorable.

Capex proposal underway for captive power plant and venture into new product
MFL, a large scale manufacturer of fertilizer, depends majorly on state board for the energy requirement. However, the company plans to achieve uninterrupted, sustained, energy efficient operation of the manufacturing plant without any interruptions. MFL proposes to setup a 20 MW gas-based power plant with Gas turbine along with Heat recovery by steam generation (HRSG). MFL is in the process of getting permission from the Department of Fertilizers (DoF) to do trading to augment their revenue. Trading of fertilizer products and Collaborations / Diversification in the field of manufacturing presenting an opportunity which will be explored based on the financial position of the company. Acuité believes that the capex towards captive power plant and diversification would aid in the business and financial risk of the company over the medium term.

Weaknesses

Working capital operations marked by high GCA days
MFL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 165-257 days over the last 3 years ending March 31, 2021. The GCA days are majorly marked by moderate inventory and debtor days. The moderate GCA days of 165 days as on March 31, 2021 is on account of debtor's days of 280 days. However, the receivables collection has improved as evident from reduction in debtors to Rs.293.31 Cr in FY2021 as against Rs.521.74 Cr in FY2020. These are partially offset by creditor days at 113 days as on March 31, 2021. The moderate GCA cycle has led to moderate utilization of around 31 per cent of consolidated working capital requirement bank lines of Rs.401.40 Cr over the past 12 months ending March, 2022. Acuité believes that the operations of the MFL will remain moderately working capital intensive being the fertiliser business being seasonal in nature requires a significant amount of working capital to build inventory. Furthermore, a significant

portion of the company's revenue are in form of subsidy. Any delay in the release of subsidy could result in increased working capital borrowings. However, the government's recent focus towards timely disbursement of subsidy is likely to keep the overall credit profile comfortable over medium term.

Continuing uncertainty on GoI loan repayment

MFL had availed loan from GoI during the revamp project completed in the 1990s. GoI extended its support by infusion of loans for expansion and revamp of the company until 2012-13. The total loans from GoI outstanding as on 31 March 2021 stands at Rs.1, 507.41 Cr, including Principal of Rs.554.24 Cr, Interest of Rs. 711.82 Cr and penal interest of Rs.241.35 Cr and expected further ~Rs.80 Cr may add by end-FY2022. Over the years, due to the lower than expected operating performance, weak financial risk profile and weak liquidity, MFL has not been able to serve the repayments for the loans extended by GoI. However, MFL is under discussion for restructuring of GoI loan seeking waiver of Interest and rescheduling the repayment of principal and the same is under active consideration. Acuité believes that the existing GoI loan restructuring proposal is expected to be completed in near term and is expected to involve part/full wavier of interest. This is expected to improve the capital structure and liquidity of the MFL significantly over near to medium term.

Regulated Nature of Fertiliser Industry and volatility in raw material prices

The fertilizer industry is strategic, but highly controlled, with fertilizer subsidy being an important component of profitability. Fertilizer companies are also exposed to subsidy payments from the government, which may get delayed leading to reliance on short-term working capital borrowing. Fertilizer manufacturer's profitability is influenced by the regulations governing various types of fertilizers wherein government controls the fertilizer prices and provides subsidy. Quantum of subsidy receivables and delays associated with receipt of the same, inherently impacts the liquidity of fertilizer industry; albeit it differs with the type of fertilizer. The shortfall in subsidy budget usually affects the cash flow of companies and thus companies have to resort to higher short term borrowings to fund extended subsidy receivables. The agricultural sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector's sales and profitability to volatility. Going forward the timeliness of the subsidy receipt from the GoI will remain a key monitorable.

ESG Factors Relevant for Rating

Fertiliser producers like other companies in the chemicals sector face environmental risks arising from their exposure to waste, pollution, and toxicity. They are subject to environmental regulations as they release NOx, SOx, VOCs and other hazardous emissions. The industry has an obligation to ensure adequate treatment and disposal of waste and waste water. The key social risks evolve around health and employee safety, product safety and product quality. The industry has to manage risks associated with community development and supply chain procurement. Other material issues include employee training, employee development and freedom of association for trade unions. From the governance perspective, the ownership and control along with shareholders' rights are key issues. Additionally, regulations with respect to bribery, corruption and money laundering are crucial for efficient working of the industry.

MFL is engaged in the production of a range of fertilisers which includes urea, complex fertilizers and also organic fertilizers. It adheres to the policies relating to safe and sustainable business practices, including the environment, health, climate related risks and opportunities. While fertilizers are critical for increasing yields, its production and use have complex and conflicting impacts on GHG emissions across the agricultural value chain. The company has taken a number of initiatives for promoting balance fertilization to facilitate sustainable agricultural growth. But it should invest in new technologies and pursue the transition to low-carbon fertilizers, including blue and green ammonia.

MFL has a good track record with respect to Corporate Governance and adheres to all the policies applicable for listed companies. It has nine directors on its board which includes three independent directors from varied backgrounds. The company's proposal for restructuring of the loans received from Government of India is however, pending for approval. The company gives priority to various social responsibility measures for the benefit of weaker section of the Society and to improve the standard of living of the inhabitants near the factory area. In the wake of the Covid pandemic, MFL focussed on protection of health of employees and contract labourers. In pursuance to the Prime Minister's Mission on empowering the farmers, MFL continues to support them in some locations through soil sample analysis and recommendation of fertilizer dosage, educating the farmers on weather, crop insurance and other improved farm technologies.

Rating Sensitivities

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Sustainable improvement in volume of sales and realizations per unit of the product offered
- Sustainable improvement in Profitability, Leverage and Solvency position of the company

Material covenants

None

Liquidity Position: Stretched

MFL's liquidity is stretched marked by insufficient generation of net cash accruals in FY2021 to its maturing debt obligations and low level of unencumbered cash and bank balance. The company has generated cash accruals in the range of Rs. (93.64)-34.01 Cr during last three years ending FY2021 as against its long term debt obligations of Rs.1, 078.25-1,253.56 Cr for the same period. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 165 days as on March, 2021 as compared to 243 days as on March, 2020. The current ratio stood at 0.40 times as on 31 March 31 2021 against 0.46 in previous year and the fund based limit remains utilized at 58 per cent over the 7 months ended July, 2021. The company maintained nil unencumbered cash and bank balances as on March 31, 2021 against Rs.0.08 Cr in previous year. MFL has maintained Term deposits of Rs.50.00 Cr with Maturity below 3 months with the bank. The company has margin money deposited with the bank of amount Rs.29.79 Cr as on March 31, 2021. Acuité believes that the liquidity of the company is likely to improve with approval of the restructuring proposal submitted for waiver of accrued and penal interest of GoI loans and restructuring of tenor of principal repayment over the period of the medium term. However, the timeline and status of the restructuring proposal will be key monitorables over the medium term for the assessment of liquidity position of the company.

Outlook: Positive

Acuite believes that MFL' business risk profile will strengthen to generate steady cash flow, driven by strong operating efficiency and market position, resulting in further strengthening of the financial risk profile and continued support from GoI. Also benefit from the increasing customer base and diversified product mix shall continue to support foster business growth of MFL. The ratings may be upgraded in case of higher-than- expected cash accruals, most likely driven by continued healthy growth of product sales, or in case of a significant reduction in the MFL's debt levels, leading to sustained improvement in its capital structure and debt protection metrics. Conversely, the outlook may be revised to 'Stable' if the MFL's revenue growth and profitability weaken significantly, impacting its cash accruals, or if it undertakes larger-than-expected debt-funded capex or acquisitions or Additionally, reduction in GoI stake below 51%, weakening of the linkages with GoI and/or change in the support philosophy of GoI could lead to a downgraded or unexpected delays in the restructuring of the GoI loan leading to deterioration of its financial risk profile and liquidity or any adverse changes in the regulations governing fertilizer industry.

Other Factors affecting Rating
Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1533.87	1293.62
PAT	Rs. Cr.	2.87	(125.26)
PAT Margin	(%)	0.19	(9.68)
Total Debt/Tangible Net Worth	Times	(1.98)	(2.47)
PBDIT/Interest	Times	1.32	0.10

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Oct 2021	Letter of Credit	Short Term	210.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	104.43	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	191.40	ACUITE BB | Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	7.47	ACUITE BB | Stable (Reaffirmed)
29 Jul 2020	Proposed Bank Facility	Long Term	72.80	ACUITE BB | Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	19.10	ACUITE BB | Stable (Assigned)
	Letter of Credit	Short Term	230.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	191.40	ACUITE BB | Stable (Reaffirmed)
02 Jan 2020	Letter of Credit	Short Term	230.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	72.80	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	191.40	ACUITE BB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	191.40	ACUITE BB+ | Positive | Upgraded | Stable to Positive
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BB+ | Positive | Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	2.12	ACUITE BB+ | Positive | Upgraded | Stable to Positive
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	310.00	ACUITE A4+ | Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE A4+ | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.78	ACUITE BB+ | Positive | Upgraded | Stable to Positive

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.